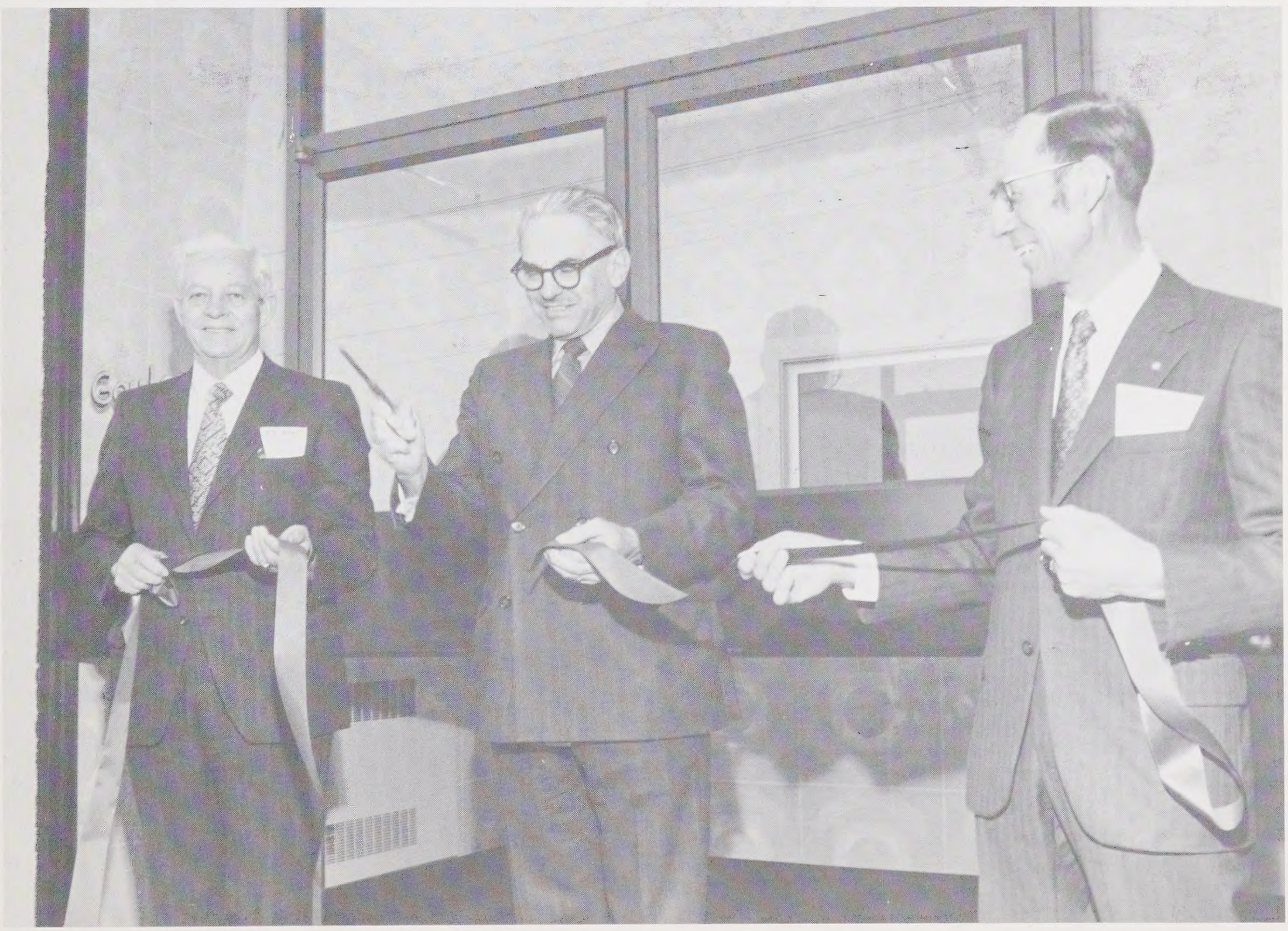
Rav Corp

1973 Annual Report

Gay Lea

Gay Lea Foods
CO-OPERATIVE LIMITED



Front cover:

The Hon. William A. Stewart, Ontario Minister of Agriculture and Food, cutting the ribbon at the opening of 100 Clayson Road on April 26, 1973. At left, T. E. Brady, Executive Vice-President; at right, Martin Baan, President, Gay Lea Foods Co-operative.

ZONE MEETING AGENDA

Lunch

Introductions

President's Address

1. Minutes
2. Desk Set Presentations
3. Chairman's Remarks
4. Nomination of Delegates
5. Directors' Report
6. By-Law No. 10
7. Management Report
8. Financial Statements
   Question Period
9. Election of Delegates
   (Renfrew — 2 to be elected for 3 years)
   (Owen Sound — 9 to be elected for 3 years)
   (Atwood — 9 to be elected for 3 years)
10. Election of Zone Directors for a two year term
    (Owen Sound and Atwood meetings only)
11. Discussions and Questions
    Adjournment

FINANCIAL HIGHLIGHTS

	1973	1972	% change
Sales	$42,746,291	$38,340,826	+11.5
Operating Earnings	519,843	273,110	+90.3
Net Earnings	556,151	311,098	+78.8
Per Share	4.36	2.73	+59.7
Shareholders Equity	2,585,546	1,964,048	+31.6
Per Share	20.25	17.25	+17.4
Working Capital	1,307,478	1,602,803	−18.4
Number of Shareholders	3,511	3,507	+ .1
Dividend Declared	102,117	91,052	+12.1
Per Share	.80	.80	—

1972-1973
BOARD OF DIRECTORS
and Executive Vice-President

Standing (left to right)
Alex Bell, Smiths Falls (Director)
George Sutherland, Chatsworth (Director)
Gerald O'Grady, Listowel (Director)
Russell McCutcheon, Owen Sound (Director)
T. E. Brady (Executive Vice-President)
Bert Tuintjer, Laurel (Director)
David Ireland, Teeswater (Director)

Seated (left to right)
Melville Proud, Tara (Vice-President)
Martin Baan, Walton (President)
Walter Hamel, Elmwood (2nd Vice-President)

DIRECTORS' REPORT

to the 1973 Annual Meeting

Your Board of Directors takes pleasure in presenting this report on our 15th year of operation. Continually stressing efficiency in all phases of production has brought us to the close of our fiscal year with an enviable financial report. It seems each new year presents more varied problems and opportunities than the previous one. Milk production in Ontario has again been decreasing for most of the year at an alarming rate. New dairy policies and price structures were designed to increase or at least to hold industrial milk supplies for the future, but unless the labour situation on farms improves, our milk supply will probably decline further for some time to come.

This year has seen one of the biggest changes in the creamery industry in the history of our company. Due to the efforts of our staff and elected people we are enjoying a steady flow of farm-separated cream into our plants and are serving a much larger number of cream producers. Government policies dealing with farm subsidies and import and export controls have again played a most vital role in the year end statistical reports for your co-operative and will no doubt do so in the future.

GAY LEA FOODS CO-OPERATIVE LIMITED

Following the approval given at the 1972 Annual Meeting for a change in the co-operative name, Supplementary Letters Patent were applied for and issued in February. Gay Lea Foods Co-operative Limited is now the complete name of our company and we are also using the short form, Gay Lea Foods, for trading purposes.

NEW HEAD OFFICE AND METRO PLANT

The move of the head office to 100 Clayson Road, Weston, took place in October and shortly after the manufacturing plant on Torbarrie Road, Downsview, was sold and manufacturing began at Clayson Road. On April 26th the new facilities were opened by the Honourable William A. Stewart, Minister of Agriculture & Food for Ontario, and the guests were afterwards entertained at a reception in a nearby hotel. In March the Weston staff members were invited to bring their families to an Open House at the plant and many did so. Generally speaking the move to Clayson Road has been an excellent one and we are now enjoying the convenience of having our head office, Metro manufacturing and distribution under one roof. The Board is also pleased to report that in October our building received a recognition award from the Environmental Control Committee of the Borough of North York for a Remodelled Structure.

OPERATIONAL CHANGES

One important operational change in our co-operative took place in August with the acquisition of controlling interest in Villa Nova Milk Products Ltd. We have experienced a steady decrease in industrial milk quota in recent years and the purchase of Villa Nova's volume has greatly strengthened our position in the industry.

Other operational changes included the purchase of the cream volume at Markdale, Flesherton, Arthur, Grand Valley and Durham, and the sale of our former creamery building at Paisley which was closed several years ago.

DEBENTURE INTEREST RATES

Interest rates climbed again in 1973 and the Board of Directors increased our debenture interest rates as follows: 3 years — from 7½% to 8%; 5 years — from 7¾% to 8¼%; 10 years — from 8% to 8½%.

DIVIDENDS AND SHARE VALUE

Out of earnings your Board has declared a dividend of 80¢ per share on common shares. This is the same dividend as in the past few years.

Since January, 1973, the Board has allotted common shares at $11.50. Beginning in January, 1974, shares will be allotted at $12.00.

MEMBERSHIP

The total membership figure in the co-operative remained substantially the same in 1973 and we had 3,511 members at the end of the year compared with 3,507 a year ago. Through deaths and retirement from farming we lost 109 members and 113 new

members joined the co-operative. Your Board continues to be encouraged over the number of farmers who become members, whether they do so for investment purposes or on account of the services which our fieldmen may render.

PREFERENCE SHARES

Since 1958, when United Dairy & Poultry Co-operative was established from the Dairy Division of United Co-operatives of Ontario, U.C.O. has held Preference Shares and the right to appoint two Directors to our Board. Towards the end of 1972 we redeemed the Preference Shares and at the 1972 Annual Meeting two additional Directors At Large were elected by the Delegates. This completed the separation of your co-operative from U.C.O. which had begun with the move to Clayson Road in October. Your Board would like to acknowledge the assistance and co-operation we have received from U.C.O. over the years and to express the hope that the two co-operatives will continue to grow and prosper separately as they did under one roof at Oak Street.

THE CO-OPERATIVE CORPORATIONS ACT

As recommended by the Select Committee on Company Law, the Ontario Government has drafted a Co-operative Corporations Act which was presented to the legislature in October. Along with other co-operatives we made representations to the government regarding the initial draft of the Act and some of our recommendations were adopted.

BY-LAW CHANGES

At this Annual Meeting you will be asked to approve by-law changes which would change our zone structure by amalgamating Zones 1 and 3 and calling the new zone "Zone 1". We are also seeking to change the maximum number of Delegates to be elected from the new Zones 1 and 2 from 27 to 30. Now that we no longer have Preference Shareholders, reference to this group will be removed from the By-Laws. As last year, the two directors formerly appointed by the Preference Shareholders will be elected by the Delegates at the Annual Meeting in future.

DIRECTORS' REPORT
(continued)

EDUCATION

In February, six directors, the general manager and three division managers joined with a similar group from U.C.O. and attended the course on Board and Management Roles and Responsibilities presented by the Western Co-operative College and held at U.C.O.'s head office. This was the first occasion when board and management had attended such a course as a group and it proved to be a most valuable experience for all who took part. A two day tour took place in October for delegates, directors and their wives who visited the head offices of U.C.O. and Gay Lea Foods and toured the Becker Milk Company's plant in Scarborough. The tour ended with a brief visit to the Ontario Science Centre.

Two young girls attended the Co-op Youth Seminar in July under the sponsorship of Gay Lea Foods Co-operative. Your co-operative was represented at many meetings of associated organizations this past year, such as the Dairy Farmers of Canada, Ontario Federation of Agriculture, Co-operative Union of Canada and others.

STAFF

We had 330 total employees at the end of the year compared with 309 a year ago. Our policy of reviewing employee benefits regularly and implementing improvements where possible was continued during the year and changes were approved in the employee Pension Plan. Your co-operative is now paying 100% of the cost of the Ontario Health Insurance Plan for its employees. The fine efforts of management and staff this past year have greatly contributed to the excellent results which we have enjoyed and we would like to thank all of those on staff for their good work.

C Martin Baan

C. MARTIN BAAN
President

Clayson Road loading dock.

CONDENSED STATEMENT OF OPERATIONS

For the year ended September 30, 1973 (With comparative amounts for 1972)

	1973	%	1972	%
SALES	$42,746,291	100.0	$38,340,826	100.0
COST OF GOODS SOLD (Including $295,602 depreciation in 1973 and $303,702 in 1972) (Note 2)	38,975,425	91.2	35,066,354	91.5
GROSS MARGIN	3,770,866	8.8	3,274,472	8.5
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES				
Depreciation (Note 2)	156,132		136,159	
Remuneration of directors and senior officers	164,002		149,667	
Interest on long-term debt	213,423		150,228	
Interest on short-term loans	38,508		28,091	
Goodwill written off	25,900		204,063	
Other expenses	2,213,058		1,948,154	
	2,811,023	6.6	2,616,362	6.8
EARNINGS ON OPERATIONS	959,843	2.2	658,110	1.7
OTHER				
Gain (loss) on disposal of fixed assets — net	34,267		(17,922)	
Sale of goodwill			55,000	
Government grants received	2,041		910	
	36,308	0.1	37,988	0.1
	996,151	2.3	696,098	1.8
PROVISION FOR INCOME TAXES	440,000	1.0	385,000	1.0
NET EARNINGS FOR THE YEAR	$ 556,151	1.3	$ 311,098	0.8

See the accompanying notes to these financial statements.

AUDITORS' REPORT

To the Shareholders
Gay Lea Foods Co-operative Limited

We have examined the balance sheet of Gay Lea Foods Co-operative Limited as at September 30, 1973 and the statements of operations, general reserve and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the co-operative as at September 30, 1973 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

G. H. Ward & Partners

Toronto, Ontario
November 1, 1973

Chartered Accountants

G. H. WARD & PARTNERS
Chartered Accountants
111 RICHMOND STREET W.
TORONTO M5H 2G7
TEL. (416) 363-5735

GAY LEA FOODS CO-OPERATIVE LIMITED

ASSETS

	1973	1972
CURRENT		
Cash	$ 386,079	$ 809,926
Accounts receivable, less allowance for doubtful accounts (1973 — $50,883; 1972 — $33,852)	2,316,868	1,819,281
Inventories, valued at the lower of cost or replacement cost (Note 1)	3,685,441	3,175,280
Prepaid expenses	27,423	24,073
	6,415,811	5,828,560

PROPERTY AND EQUIPMENT (Note 2)

	Cost	Accumulated Depreciation	Net	1973	1972
Land	$ 130,682	$	$ 130,682		
Buildings	2,126,277	314,035	1,812,242		
Machinery and equipment	3,869,101	2,391,296	1,477,805		
Automobiles and trucks	719,966	556,919	163,047		
	$ 6,846,026	$ 3,262,250		3,583,776	3,348,526

	1973	1972
OTHER ASSETS		
Accounts receivable, not due within one year	88,080	68,552
Mortgages receivable	197,264	66,450
Loans to and investments in other co-operatives — at cost	41,205	40,480
Investment in subsidiaries — at cost (Note 3)	557,200	
	883,749	175,482
	$10,883,336	$ 9,352,568

See the accompanying notes to these financial statements.

Approved by the Board:

C. M. BAAN, Director
M. H. PROUD, Director

BALANCE SHEET AT SEPTEMBER 30, 1973

(With comparative amounts at September 30, 1972)

LIABILITIES AND MEMBERS' EQUITY

	1973	1972
CURRENT		
Outstanding cheques	$ 379,334	$ 289,577
Bank loan — secured	764,800	—
Accounts payable and accrued expense	3,608,587	3,411,581
Current instalments on long-term debt (Note 4)	283,460	337,310
Taxes payable	72,152	187,289
	5,108,333	4,225,757
DEFERRED INCOME TAXES	284,035	234,235
LONG-TERM DEBT (Note 4)	2,887,942	2,901,632
	8,280,310	7,361,624
MEMBERS' EQUITY		
Capital Stock Authorized:		
200,000 Co-operative common shares of $10 par value $ 2,000,000		
Issued and fully paid:		
100 Co-operative preference shares	—	10,000
127,646 Co-operative common shares of which 13,809 shares were issued during the year for cash	1,276,460	1,138,370
Partial payments received on common shares subscribed for, but not yet issued	17,480	16,896
	1,293,940	1,165,266
CONTRIBUTED SURPLUS (Note 5)	33,808	14,999
GENERAL RESERVE — See statement	1,275,278	810,679
	2,603,026	1,990,944
	$10,883,336	$ 9,352,568

See the accompanying notes to these financial statements.

NOTES TO FINANCIAL STATEMENTS

September 30, 1973

1. INVENTORIES

Manufacturers and cutters of butter are permitted, under an arrangement with the Canadian Dairy Commission, to sell butter to the Commission for government storage, during certain periods, at a fixed price. The Commission then undertakes to resell the butter back to the manufacturer or cutter during a specified period at the current government purchase price for such butter.

At September 30, 1973, butter in government storage, priced at the lower of the co-operative's cost or replacement cost, amounted to $883,162, and is included in the total inventory figure of $3,685,441 as shown in the co-operative's balance sheet. Funds advanced by the Canadian Dairy Commission relating to butter held in government storage at September 30, 1973 amounts to $869,568 and is included in the balance sheet as part of accounts payable and accrued expenses. This accounting treatment is consistent with the previous year.

2. DEPRECIATION

Depreciation has been provided on the fixed assets of the co-operative on a straight-line basis at rates estimated to provide fully for the cost of the fixed assets over their useful lives, as follows:

Buildings	— 2½ %
Machinery and equipment	— 10%
Automobiles and trucks	— 30% in first year decreasing to 10% in fifth year

3. INVESTMENT IN SUBSIDIARIES

During the year the co-operative acquired 100% of the outstanding common shares of Villa Nova Holdings Limited. Through its ownership of this subsidiary Gay Lea Foods Co-operative Limited held approximately 54 per cent ownership of Villa Nova Milk Products Limited at September 30, 1973.

These subsidiaries have not been consolidated at September 30, 1973 due to their recent date of acquisition and the limited effect their inclusion would have on these financial statements.

4. LONG-TERM DEBT

($'s)

Debentures	5%	5½%	6%	7½ to 7¾%	8-8¼%	8½%	Total
1974 & prior	28,100	11,520	46,730	3,020	124,860		214,230
1975	8,020	1,870	100	19,900	20,780		50,670
1976		400	150	2,290	100,250		103,090
1977			12,470	8,010			20,480
1978	11,810		6,160	470	26,010		44,450
1979	700		500				1,200
1980		400	4,420		15,000	40,800	60,620
1981		260	11,500		140	115,340	127,240
1982		1,910	6,330		26,350		34,590
1983		25,460	2,900		5,000	23,460	56,820
1984	100,000	30,410					130,410
1985	100,000	102,700				20,000	222,700
1986	100,000	100					100,100
1987	100,000						100,000
1988	90,000						90,000
	538,630	175,030	91,260	33,690	318,390	199,600	1,356,600
Less: Principal repayments due within one year							214,230
							1,142,370

Mortgages

5¼% payable over the next 11 years in equal instalments of $46,730	$ 467,302	
6% due 1986, payable $12,500 per annum	162,500	
6% due 1976, payable $10,000 per annum	40,000	
	669,802	
Less: Principal repayments due within one year	69,230	600,572

Notes Payable

7% due 1977	65,000	
7% due 1978	40,000	
8% due 1979	11,000	
8% due 1976	95,000	
8% due 1980	14,000	
9% due 1978	20,000	
1% above prime bank rate due 1975	100,000	
1% above prime bank rate due 1977	800,000	1,145,000
TOTAL LONG-TERM DEBT		2,887,942

During the year, new debentures totalling $135,110 were issued and debentures totalling $153,420 were redeemed.

5. CONTRIBUTED SURPLUS

Effective January 1, 1971 the co-operative commenced issuing common shares at a price in excess of their par value of $10. The increase in the contributed surplus during the year of $18,809 represents the premium received from these common share transactions during the year.

6. NAME CHANGE

During the year the co-operative changed its name from United Dairy Producers Co-operative Limited to Gay Lea Foods Co-operative Limited.

STATEMENT OF GENERAL RESERVE

For the year ended September 30, 1973
(With comparative amounts for 1972)

	1973	1972
BALANCE, beginning of year	$ 810,679	$ 580,688
Deduct:		
Dividend on common shares — 80¢ per share	91,052	80,607
Dividend on preference shares — 5%	500	500
	91,552	81,107
	719,127	499,581
Net earnings for the year	556,151	311,098
BALANCE, end of year	$ 1,275,278	$ 810,679

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended September 30, 1973
(With comparative amounts for 1972)

	1973	1972
SOURCE OF FUNDS		
Net funds derived from operations		
Net earnings for the year	$ 556,151	$ 311,098
Add: Charges to operations which did not require the outlay of funds		
Depreciation	451,734	439,776
Goodwill written off	25,900	204,063
Total arising from operations	1,033,785	954,937
Funds received on note payable	20,000	840,000
Debentures issued	135,110	87,790
Common shares issued	138,090	130,780
Disposal of fixed assets — net book value	151,901	194,527
Decrease in deposits on purchase of fixed assets		12,486
Increase in deferred income taxes	49,800	
Increase in partial payments received on shares subscribed for, but not yet issued	584	467
Decrease in long-term accounts receivable — net		9,526
Contributed surplus (Note 5)	18,809	11,724
Liquidation of subsidiary		82,620
	1,548,079	2,324,857
APPLICATION OF FUNDS		
Additions to property and equipment	838,885	1,454,407
Dividends on shares	91,552	81,107
Reduction of debentures	99,570	173,940
Increase in long-term accounts receivable — net	19,529	
Increase in mortgages receivable — net	130,813	11,912
Increase in investments to other co-operatives	725	7,400
Investment in subsidiary companies	557,200	
Mortgage repayments	69,230	69,230
Goodwill purchased	25,900	163,673
Redemption of preferred shares	10,000	
	1,843,404	1,961,669
INCREASE (DECREASE) IN WORKING CAPITAL	$ (295,325)	$ 363,188
WORKING CAPITAL		
Current assets	$ 6,415,811	$ 5,828,560
Current liabilities	5,108,333	4,225,757
Working capital	$ 1,307,478	$ 1,602,803

See the accompanying notes to these financial statements.

MANAGEMENT REPORT

for year ending September 30, 1973

Management is pleased to report that your co-operative has had another successful year. The financial statements show an increase in sales volume as well as in net earnings compared with a year ago. The decrease in milk supplies for our plants was more than offset by increases in volume of eggs, farm-separated cream, cheese, special products, frozen food and products purchased from other suppliers.

Consolidation of our Toronto operations at 100 Clayson Road, Weston, was a major move for us during the year but the new facilities are giving your organization opportunities for growth and expansion. Improvements in automation, sanitation and product handling all play a role in increasing our service to the retail food stores and the food service industry.

Changes in laws with respect to packaging, ingredient listing, code dating and the change to the metric system are all costly and time-consuming. Your co-operative has adopted a policy of open code dating and the codes will be shown on the individual consumer packages just as soon as we can obtain the proper coding equipment. Your management is pleased with the continued interest that producers are showing in owning and operating a food marketing co-operative. Recently a speaker was heard to say that you cannot give something unless there is someone to receive it. Gay Lea Foods Co-operative gives producers in Ontario the opportunity to own and control an organization for the marketing of their milk, cream and eggs.

Over 3,500 producers have taken this opportunity and can be proud of the job they are doing in supplying the basic working capital and producer control through your elected delegates and board of directors. We invite other producers to become member shareholders to assure the continued expansion of your organization.

SPECIAL PRODUCTS DIVISION

The food industry is developing in two directions, which are both interesting and logical. Producers are planning their production through the use of market information made available to them. This has improved relationships with manufacturers and food distributors because it allows them to better judge consumer demand.

In another direction, food manufacturing and distribution is becoming more sensitive to consumer demands. Considerable effort was spent to improve code dating of perishable products, on product and package improvement, and on marketing Gay Lea products to the consumer.

New designs and packaging were introduced during the year for Swiss style yogurt, cheesecake dessert, chip dip, and Mel-O-Tang cheese. Nordica style cottage cheese and Gay Lea Cheesecake Dessert were test marketed and received excellent consumer acceptance. Both products are now in full distribution; the cheesecake dessert line has been expanded to seven flavours and both a 3½ ounce institutional serving and a retail sleeve pack have been added to the Nordica line.

Because of increasing competition, we are putting more emphasis on in-store and sales promotion of our products. During the year, we continued to improve our existing brands to give them the kind of quality that keeps us competing successfully. Advertising campaigns were carried out on radio and newspaper for yogurt, chip dip, and sour cream. Gay Lea Cheesecake Dessert was introduced by both newspaper and television advertising, and this was our first use of television as an advertising medium.

Probably of greatest significance during the past year was the opening and operating of the new 53,000 square foot head office and plant at Clayson Road. The consolidation of the Toronto distribution warehouse and the Metro manufacturing facility into the Clayson Road building was completed in January. The new plant is air conditioned, and has both water and air filtration. This, along with the installation of increased pasteurizing, cooling, and processing equipment, makes it one of the most modern dairy by-product manufacturing plants in Canada. The freezer and refrigerated areas of the warehouse give us double our previous capacity and a refrigerated shipping dock was installed to improve the efficiency of our distribution system.

Sales volume continued to expand, with eggs, dairy by-products, cheese and frozen foods showing the largest increases. While Ontario is our prime market, we are shipping dairy by-products to Newfoundland, Bermuda, and Jamaica on a weekly basis. Egg marketing through the Seaforth station increased substantially, and with the Woodstock egg station operating for its first full year, the company's egg volume more than doubled over last year.

The Ontario Egg Producers Marketing Board has operated the egg surplus removal program since June, 1972, and the egg production quota program since April, 1973. Producers' f.o.b. farm prices for grade A large eggs have risen from 28 cents in June, 1972, to 67 cents in September, 1973. However, this increased return to producers has been offset by substantially higher feed prices over the past nine months. The quota system has been in operation

Visitors touring the Clayson Road plant on Opening Day.

some six months, and this has not been a sufficient period of time to enable the Egg Board to eliminate Ontario's over production of eggs.

The increasing cost of operating remains as the biggest challenge facing our industry in the coming months due to the difficulty of passing much of the increasing cost of labour and materials to the consumer. We believe the continued emphasis on marketing innovations, more efficient distribution methods, the further use of automatic equipment, and more efficient use of labour appear as the key to future success. We cannot predict with certainty what achievements, surprises, or challenges are in store for us. We do know there is no lack of opportunities, and that our people are prepared to realize those opportunities.

MILK DIVISION

There have been numerous changes affecting milk and milk pricing. In April 1973, the Canadian Dairy Commission advanced the support price on butter by 3¢ to 71¢ per pound, on skim milk powder by 6¢ to 35¢ per pound, and on cheddar cheese by 6¢ to 60¢ per pound. On August 1, 1973, the skim milk powder support price was increased a further 3¢ to 38¢ per pound.

The cost of milk to plants processing butter and powder is associated with the Federal support prices, while the price of milk to cheddar cheese factories is associated with the average monthly price for cheese sold on the cheese exchanges at Stratford and Belleville.

For our butter — powder operations at Guelph and Tara on October 1, 1972, the milk price was $4.40 per cwt. providing a gross margin of 77.6¢ per cwt., or 14.99% for manufacturing, packaging and distribution. On April 1, 1973, with the increase in support levels, the milk cost advanced 60¢ cwt. to $5.00 per cwt., and the gross margin increased to 78.2¢ per cwt., decreasing percentagewise to 13.50%. With the August change in supports, the milk cost advanced a further 16¢, the gross margin increased to 86.2¢ per cwt., equivalent to 14.3%. This improvement in gross margin was not, however, sufficient to offset the combined effect of increases in processing costs generally, and the impact of sharply lower volume available to the industrial milk plants operating under the restrictions of the Plant Supply Quota Policy.

The increases in total milk production a year ago turned into decreases early in 1973, gradually worsening and reaching a decrease of 8.2% in August. During this same period the requirements of the quota-free classes, fluid, by-products, ice cream, etc., continued to increase, further reducing the supplies of milk available for the industrial plants required to operate under quota. For the past six months, these supplies are over 18% behind last year, and over 40% behind the base period on which the quotas were set.

A quota plant would receive additional milk supplies if there is an overall increase in production. It may increase its milk quota if its existing cream shippers should convert to shipping milk, or it may increase its supplies by the purchase of quota from another plant that is prepared to discontinue operations. Our acquisition of the Villa Nova plant south of Brantford is an example of the latter approach. In this case the plant was closed October 31, 1973, and the quota transferred to Guelph and Tara.

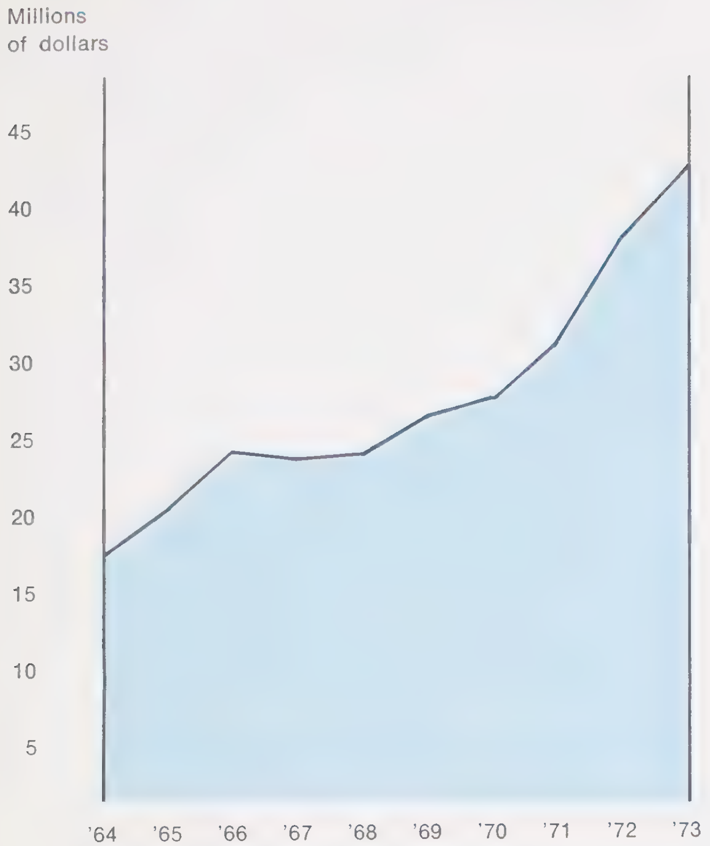
Decreased milk supplies in turn meant lower butter production. Last year Canada imported about 28 million pounds. A shortage in Ontario of almost the same amount was covered for the most part with butter from Quebec and the balance from the Canadian imports. This year the situation is even more critical. Our own position is impaired, since we cannot meet our sales requirements with our own production. We must bring in butter to supply our customers, and processing margins are lost when the plants are idle. The purchase of Markdale Creamery and receiving stations did provide some offset.

A shortage of skim milk powder supplies required the United States to open up import quotas four times in the past 10 months, totalling about ¼ billion pounds. Canada supplied about one third of the total. Gay Lea powder was very favourably received by our American customers who had never previously been permitted to import from Canada.

The Ministry of Agriculture and Food has been conscious of the lack of available volume for the industrial plants, and at least three programs in particular have been developed. The first was the 3 year program established in August 1970, and tentatively extended recently to December 1973, called the Plant Consolidation Assistance Program. To date some 45 processing plants have ceased operations and under the program, qualified for grants totalling some 1.3 million dollars. The most recent program is known as the Industrial Milk Production Incentive Program, intended to encourage, as the name implies, greater producer activity on milk production. It is an expansion of the Guaranteed Loan Program for milk and cream producers announced in 1972.

The I.M.P.I.P. program was announced on June 8, 1973. Loan applications must be made within one year of the start of the program, the loan to be repaid within 5 years, with no repayment of principal in the first year. Providing certain production goals are met, 20% of the annual repayment of principal will be refunded each year. We understand that approved loans to the end of October number well over 600, totalling over 25% of the $30 million available. Interested producers may obtain details from local fieldmen or Agricultural offices.

10 YEAR SALES RECORD

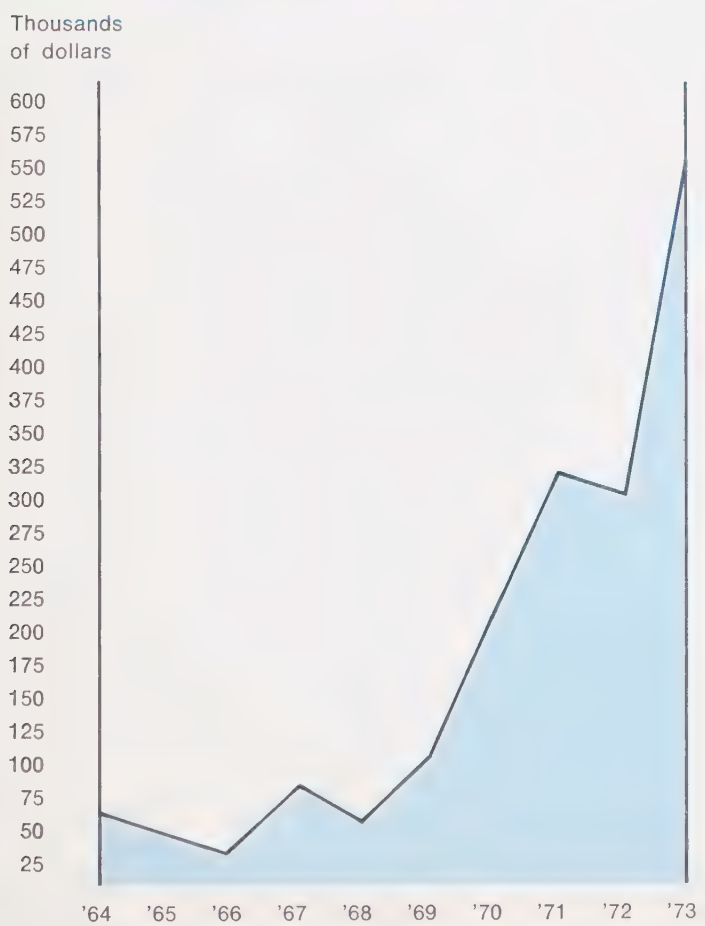


FINANCE

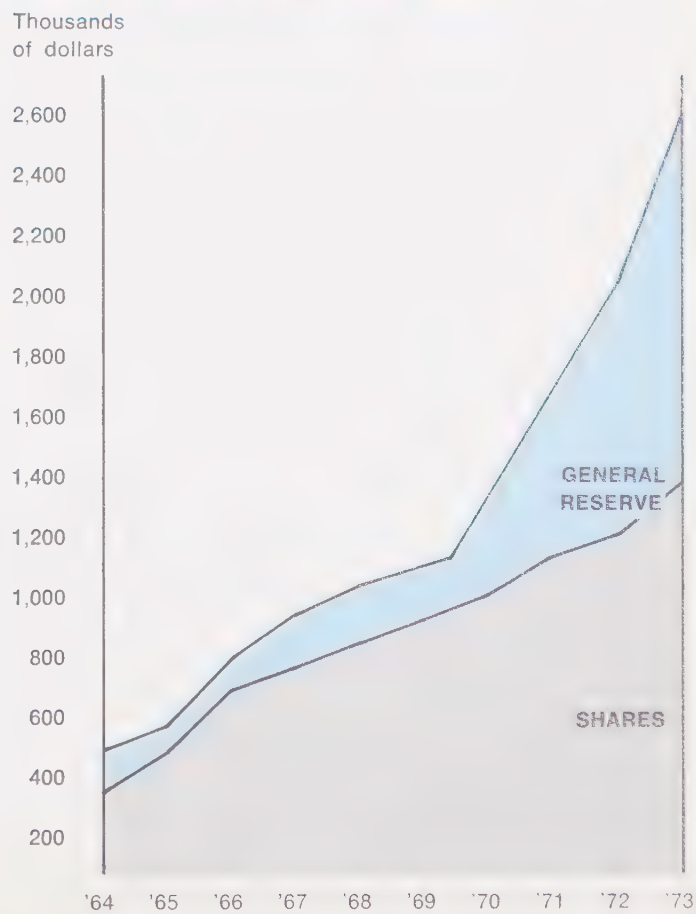
1973 has been a year of heavy capital investment for your co-operative. The new Toronto facilities at 100 Clayson Road, various acquisitions and our normal replacement of capital assets totalled approximately $1,396,000. This outflow of funds has been replenished by our healthy cash flow (earnings plus depreciation), investment in shares by our members and the conversion to a longer term of debentures coming due this year. Earnings per share amounted to $4.36, compared with $2.73 last year. Book value per share is $20.25 against $17.25 last year and total dollars of members' equity shows a 31.6% increase over the previous year.

Accounts receivable and inventories have increased from last year due mainly to the increase in sales volume and to higher selling prices.

10 YEAR NET EARNINGS RECORD



10 YEAR MEMBER EQUITY RECORD



Presentation of 25 year gold watches by Mr. Brady. Left to right: Earle Maycock, Tara; Sandy Fowlie, Guelph; Keith Galbraith, Woodstock; T. E. Brady, Weston.

QUALITY CONTROL

The investment in new plant and equipment at Clayson Road has greatly improved our potential for better quality products. The plant was specifically designed with this objective in mind and the results are proving the foresight of this decision. The new fully equipped laboratory monitors quality on all products produced and assists in detecting problem areas when they occur.

NEW PRODUCT DEVELOPMENT

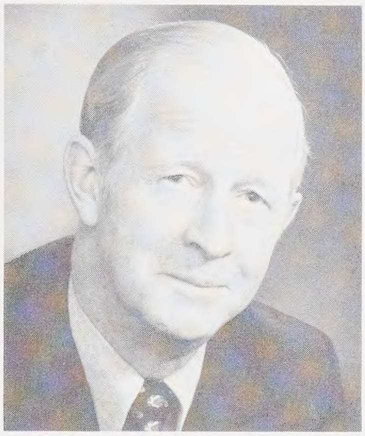
Several new flavours of our Cheesecake have been developed and other new products are ready for marketing. We are also exploring new uses for milk protein which could have considerable potential in light of the present high cost of protein from meat sources. The laboratory staff, in conjunction with the plant staff, spent considerable time in the implementation of the Nordica small curd cottage cheese program, which has resulted in a very acceptable product. The new pilot plant attached to our laboratory allows larger batches of new products to be made without interfering with plant production as was the case previously.

T. E. Brady

Executive Vice-President
and General Manager

T. E. BRADY
Executive Vice-President
and General Manager

PERSONNEL DEPARTMENT MANAGER
M. HODGKINSON

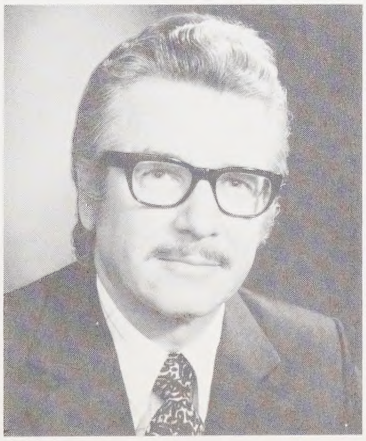


L. A. STEPHENS
Vice-President and Manager,
Milk Division

BRANCH AND PRODUCT MANAGERS
F. CHITTICK, Guelph
P. McLINDEN, Tara
P. INFELISE, Butter
G. FICE, Powder

M. N. McCARTER
Vice-President and Manager,
Special Products Division

BRANCH AND PRODUCT MANAGERS
H. FRAZER, Special Products
G. FRASER, Frozen Foods
H. BURNS, Cheese
P. RUSSELL, Field Sales
V. KISHIMOTO, Plant Manager
K. GALBRAITH, Woodstock
T. YOUNG, Seaforth
L. PAXMAN, Ottawa



V. B. McQUEEN
Vice-President, Finance
and Treasurer

DEPARTMENT MANAGERS
J. DUNCAN, Chief Accountant
P. MONTGOMERIE, Credit Manager
O. ILNYCKYJ, Laboratory Technologist

MEL PROUD, PRESIDENT OF GAY LEA FOODS CO-OPERATIVE